



Statement of NCUA Chairman JoAnn Johnson  
on the Final Rule Amending Part 708a  
Conversions of Insured Credit Unions to Mutual Savings Banks

When the Credit Union Membership Access Act became law in August 1998, it amended a number of areas of the Federal Credit Union Act, including the degree of authority NCUA has with respect to credit union conversions to mutual savings banks and the manner in which NCUA processes them. As part of CUMAA's mandate, NCUA issued final rules in November 1998 regarding credit union charter conversions that were consistent with CUMAA and with the charter conversion rules of other financial regulators.

Since issuing those rules in 1998, NCUA has had the opportunity to become much more familiar with the conversion process in practice and the broad spectrum of issues that accompany conversions. Throughout this process, NCUA has remained keenly aware of the limitations CUMAA places on our authority in this context, while fulfilling the responsibility Congress has given us to oversee the methods and procedures of the member vote on conversion.

NCUA maintains the position that nothing in CUMAA is to be read to preclude state regulatory authorities from imposing more restrictive charter conversion rules on federally insured state-chartered credit unions. Accordingly, NCUA recognizes that under certain circumstances, state law can have a great impact on the conversion process. NCUA has developed effective procedures for working cooperatively with state supervisory authorities in instances where a converting credit union happens to be state chartered.

Since the enactment of CUMAA, NCUA has continued to be concerned that many credit union members do not fully understand the effect a conversion may have on their ownership interests in the credit union and voting power in the mutual savings bank. A charter conversion is a complex and sophisticated transaction with long-term consequences that may not always be readily apparent. NCUA believes it is of paramount importance for credit union members to be fully informed about the conversion so they may cast educated and meaningful votes. NCUA recognizes a credit union's right to convert its charter, so long as the members who vote on that decision have access to sufficient information to make an informed choice.

The rule as presented today achieves an appropriate balance of addressing NCUA's concerns about protecting a credit union member's interest in his or her credit union while respecting the limitations placed on our authority by CUMAA. Requiring a converting credit union to provide its members with additional specific disclosures about the conversion in a particular format before conducting a member vote will call to each member's attention critical information needed to understand the conversion. The format of the information is designed to increase the likelihood that the information will not get lost in the often enormous volume of information being provided to members. We also believe that requiring the vote to be by secret ballot and conducted by an independent entity will enhance the integrity of the voting process and give comfort to members that their votes are being treated confidentially.

The requirement that a federally-insured state credit union provide NCUA with conversion related information about the laws of the state where the credit union is chartered and its state supervisory authority's position on those laws is consistent with our position that state laws may have a profound effect on the conversion process and evidences our desire to work cooperatively with state authorities to process conversions as efficiently as possible.

As noted, as part of the regulatory process, NCUA solicited public comment on this rule and received 42 comments from a variety of interested parties. As a result of this solicitation, the final amendments being presented today reflect changes suggested by the commenters. They include NCUA's acknowledgement that some states allow credit unions to compensate their board members and a clarification in the voting guidelines that Robert's Rules of Order are not the only parliamentary procedures a credit union may consider using for its member vote.

Finally, while a final rule issued by NCUA is normally effective 30 days following its publication in the Federal Register, this final rule, if adopted, will be effective immediately upon publication. There is a strong public interest in having this consumer protection rule in place immediately to provide credit union members with clear, concise, meaningful information concerning the vote. It is also important to provide regulatory certainty to credit unions that are considering converting or beginning the conversion process within the next thirty days to enable them to better understand what regulatory requirements they must follow throughout the conversion process.